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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)	
HAWAIIAN ELECTRIC COMPANY, INC.)	DOCKET NO. 01-0444
For approval to commit funds in Excess of $500,000 for Item P0000064, the Waiau Fuel Pipeline Project)	

DECISION AND ORDER NO. 19875

Filed Dec. 16, 2002

At 11:30 o'clock A .M.

Karen Higashi

Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. For approval to commit funds in Excess of $500,000 for Item P0000064, the Waiau Fuel Pipeline Project	Docket No. 01-0444 Decision and Order No. 19875

DECISION AND ORDER

I.

By an application filed on November 6, 2001, HAWAIIAN ELECTRIC COMPANY, INC. (HECO or the Company) requests commission approval to commit an estimated $26.9 million for Item P0000064, relating to its Waiau fuel pipeline project (proposed project). HECO makes its request in accordance with Section 2.3.g.2 of General Order No. 7, Standards for Electricity Utility Service in the State of Hawaii.

Copies of the application were served on the Division of Consumer Advocacy, Department of Commerce and Consumer Affairs (Consumer Advocate).

By Order No. 19185, filed on February 4, 2002, the commission granted HECO's request to extend the applicable General Order No. 7, Section 2.3.g.2, deadline, from February 4, 2002 to May 6, 2002. By Order No. 19340, filed on May 8, 2002, the commission granted HECO's request to extend the applicable General Order No. 7, Section 2.3.g.2 deadline, from May 6, 2002

to July 5, 2002. By Order No. 19527 filed on August 20, 2002, the commission granted HECO's request to extend the applicable General Order No. 7, Section 2.3.g.2 deadline, from May 6, 2002 to August 15, 2002 and from August 15, 2002 to September 30, 2002. By Order No. 19684, filed on September 30, 2002, the commission extended the applicable General Order No. 7, Section 2.3.g.2 deadline, from September 30, 2002 to October 7, 2002. By Order No. 19697, filed on October 8, 2002, the commission extended the applicable General Order No. 7 deadline, from October 7, 2002 to October 31, 2002.

On October 7, 2002, the Consumer Advocate filed its Statement of Position. On October 16, 2002, HECO filed its reply to the Consumer Advocate's Statement of Position.

By Order No. 19720, filed on October 23, 2002, the commission suspended HECO's application in order to provide additional time for the commission to complete its investigation and to issue a Decision and Order on this matter.

A scheduling conference was held on October 24, 2002. By Order No. 19732, filed on October 25, 2002, the commission established the issues and procedural schedule for this docket. On November 1, 2002, the Commission issued its information requests (IRs) to HECO. On November 8, 2002, HECO filed its response to the commission's IRs. There were no supplemental IRs issued. On November 21, 2002, HECO filed a joint letter addressing the Consumer Advocate's recommended conditions proposed for this project.

II.

A.

BACKGROUND

Currently, HECO's Waiau and Honolulu Generating Stations receive low sulfur fuel oil (LSFO) through a Chevron-owned 8-inch "black oil" pipeline[1] (Chevron Pipeline). The Chevron pipeline originates at Chevron's Refinery in Campbell Industrial Park (CIP), which is next to HECO's Barber's Point Tank Farm (BPTF), and connects Chevron's Refinery and the BPTF with Chevron's Pier 30 Honolulu Marine Terminal fuel facilities at Honolulu Harbor. Spurs off the Chevron Pipeline feed HECO'S Waiau Generating Station and Iwilei Tank Farm. LSFO is delivered to the Kahe Generating Station via a HECO 8-inch pipeline that originates from BPTF to the Kahe Generating Station.

HECO uses the Chevron Pipeline under the terms of a Facilities and Operating (F&O) Contract, dated November 14, 1997. Under the F&O Contract, which is expected to expire on December 31, 2004, Chevron provides the following:

1. The operation and maintenance of HECO's BPTF;
2. The transport of LSFO through Chevron's pipeline from the BPTF to HECO's Waiau Generating Station and the Iwilei Tank Farm.

[1]Chevron also has an 8-inch "white oil" pipeline that is used to transport petroleum products such as jet fuel, gasoline, and diesel.

3. The transport of LSFO through HECO's 8-inch pipeline from the BPTF to the Kahe Generating Station;

4. The operation and maintenance of Chevron's Pipeline;

5. The operation and maintenance of HECO's 8-inch Kahe pipeline;

6. The operation of pumping and steam heating facilities at Chevron's refinery in CIP that are used to deliver fuel from the BPTF to HECO's Waiau and Kahe Generating Stations and to the Iwilei Tank Farm;

7. The provision of steam to heat the LSFO in HECO's three 345,000-barrel capacity LSFO storage tanks at the BPTF; and

8. The use of Chevron's marine mooring for the discharge of tanker vessels into HECO's BPTF.

The LSFO is nearly solid at room temperature, and is usually stored at approximately 165 degrees Fahrenheit to keep it fluid enough for transport. Because the black oil pipeline is not insulated, Chevron must heat the fuel to about 190 degrees Fahrenheit and pump it at a high rate to ensure that it reaches Waiau before it becomes too viscous to flow. This pumping rate exceeds the needs of the power plant, thus, the fuel cannot be pumped continuously. Chevron batch ships LSFO to Waiau by pumping approximately 1,000 barrels per hour for three days. When not in operation, a lighter, less viscous fuel is placed in

the pipeline. This lighter oil remains in the line for approximately one to two weeks until the line is needed for the next LSFO batch shipment to Waiau or Iwilei.

B.

SCOPE OF PROPOSED PROJECT

HECO is proposing to construct a new-dedicated 8-inch pipeline and ancillary facilities that would connect HECO's BPTF and the Waiau Generating Station (BPTF-to-Waiau pipeline). The new pipeline would be approximately 13 miles long and would be insulated to allow the continuous pumping of heated LSFO to the Waiau Generating Station. In addition to the BPTF-to-Waiau pipeline, the overall proposed project would include:

1. a short pipeline segment connecting the new BPTF pumping station to the existing Kahe pipeline;
2. new ancillary facilities at the BPTF, including a pumping and heating station and truck unloading facilities;
3. modifications at the Waiau Generating Station; and
4. truck unloading facilities at the Iwilei Tank Farm.

HECO also requests an allowance of $250,000 for "special community relations costs". This allowance is to cover

those costs that will be incurred to improve the quality of some of the communities affected by the proposed project. While these expenditures are not expected to be for items typically included in rate base, HECO claims that these types of costs are a normal cost of permitting and implementing similar projects in today's climate. The details regarding the types of expenditures that will be incurred a part of the special community relations costs have not been determined at this time, and will be incurred as part of the development as the proposed project progresses.

1.

PIPELINE ROUTE

Generally, the proposed new BPTF-to-Waiau pipeline follows the State Energy Corridor (SEC), and easement authorized by the Legislature specifically for fuel transport. See Hawaii Revised Statutes, Chapter 277. The corridor is 22 miles long and is typically about 30 feet wide. It extends from CIP to Honolulu Harbor and has five pipeline "slots". Pipelines owned by The Gas Company and Tesoro currently occupy two of these slots. HECO would become the new third tenant. In order to use the SEC, HECO will need to lease a slot from the State Department of Transportation, Harbors Division, which administers the SEC. Leasing a slot requires that HECO make an initial payment to reimburse prior users for the cost of

establishing the SEC, in addition to paying an annual lease rent.[2]

The Waiau pipeline runs 13 miles from a new pumping station located within the BPTF to existing fuel storage tanks at the Waiau Generating Station. A second, much shorter (0.6 miles) line connects the new BPTF pumping station with the existing HECO pipeline that supplies the Kahe Generating Station.

Initially, both the proposed new BPTF-to-Waiau pipeline and new Kahe pipeline segment follow the same route, remaining within existing HECO easements. From the BPTF, the proposed route heads eastward within HECO's property initially and then turns north, following an existing easement that lies just within the eastern boundary of the Chevron Refinery. The route continues northward, exiting Chevron property and crossing to the northern side of Malakole Street. At that point, the new segment of Kahe-bound pipe connects to HECO's existing Kahe pipeline. HECO's proposed new BPTF-to-Waiau pipeline then follows the route of HECO's existing Kahe pipeline eastward on the north side of Malakole Street and then generally northward along the western side of Kalaeloa Boulevard.

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[2]The two initial SEC users were responsible for making the annual payments on the State bonds issued to pay for the land and easement acquisition to establish the SEC. Subsequent users, like HECO, are required to make an initial payment for the purpose of bearing their proportionate share of the costs to establish the SEC. The amount of the initial payment equals all prior payments made by all initial users, plus interest on the net payments using a reasonable interest rate compounded annually, as established by the State, and divided by the number of users.

The proposed route of the proposed new BPTF-to-Waiau pipeline separates from the existing Kahe pipeline route where the Oahu Rail and Land Co. (OR&L) right-of-way crosses Kalaeloa Boulevard. The proposed new BPTF-to-Waiau pipeline route crosses Kalaeloa Boulevard at that point and enters the beginning of the SEC.[3] The existing Kahe pipeline turns westward to parallel the OR&L right-of-way. HECO will need a new easement from Campbell Estate to cross Kalaeloa Boulevard.

The proposed new BPTF-to-Waiau pipeline continues eastward from Kalaeloa Boulevard once it enters the SEC. The SEC route runs primarily on the mauka side of Farrington Highway until it crosses to the makai side near the St. Francis Hospice and continues to the intersection of Fort Weaver Road. After crossing under the Fort Weaver Road overpass, the route turns south along Kaihuopaalai Street in West Loch Estates to join the former OR&L railroad right-of-way adjacent to the West Loch of Pearl Harbor. From that point, heading north and east, the OR&L right-of-way and the SEC have the same boundaries until they cross Waikele Stream.

After crossing Waikele Stream, the SEC and the OR&L right-of-way separate, with the SEC passing through the wetlands of the Pouhala Marsh and the OR&L right-of-way passing mauka on higher ground above the wetlands. HECO's proposed new BPTF-to-Waiau pipeline route leaves the SEC at this point,

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[3]The new Waiau pipeline would be installed alongside two existing pipelines (GASCO's has a 16-inch gas pipeline and Tesoro has a 10-inch white oil pipeline) in the SEC.

remaining in the OR&L right-of-way until it crosses Waipahu Depot Road. It rejoins the SEC at that point and continues east. HECO has proposed use of the OR&L alignment in this area to eliminate the potential for impact to the Pouhala Marsh from pipeline construction. A new easement from the Hawaii Department of Transportation will be required to use the OR&L right-of-way.

After crossing Waipahu Depot Road, the SEC and the OR&L boundaries overlap to a point just east of Waipio Point Access Road. There, the SEC turns north, while the OR&L right-of-way continues to the east. The proposed new HECO pipeline alignment continues in the SEC across Waiawa Stream, under an elevated portion of the H-1 Freeway, and parallels 2nd Street across Lehua Avenue, where it turns south and again crosses under the elevated H-1 Freeway. Once across the H-1 Freeway, the SEC route turns east and then southeast, parallel to the existing bikeway and the Navy Utility Corridor. The pipeline leaves the SEC at Waimano Stream and enters HECO property. On HECO property, the pipeline route stays makai of the Navy Utility Corridor until reaching the existing overhead pipe rack that is used to cross the Navy Utility Corridor. Connections to the Waiau Generating Station fuel tanks and construction of the new receiving facilities will be at this location.

2.

Pipe Technology

The pipe to be used for the proposed new BPTF-to-Waiau pipeline will be a high-grade steel pipe with a wall thickness of 0.322 to 0.5 inches, depending on the specific location of the pipe section. It will be coated with a high temperature fusion bonded epoxy to protect against corrosion, insulated with high-density urethane foam (2 inches thick) to minimize heat loss, and protected by a polyethylene jacket. An impressed current cathodic protection system will also be installed.

HECO represents that insulating the pipeline will increase HECO's operational flexibility and reliability by allowing HECO to pump fuel continuously from BPTF to Waiau at a flow rate that essentially matches the rate at which it is consumed, as opposed to the current batch shipment method. HECO further represents that the insulation also will allow the LSFO to be normally pumped from the BPTF storage tanks at the temperature it is stored, 165 degrees Fahrenheit, and still be delivered to Waiau at the desired temperature of 140 degrees Fahrenheit (above the pour point temperature with a safety margin). Finally, insulating the pipeline will help to reduce the likelihood of cold plugging the pipeline by increasing the time the pipeline can remain idle before pumping must restart or the LSFO must be displaced by diesel fuel.[4] At the anticipated

[4]Cold plugs occur when the temperature of the LSFO in the pipeline drops below the pour point temperature or the point when the LSFO cannot be pumped.

normal continuous delivery rate of 333 bph, the maximum idle time is approximately 18 hours.

3.

Pipeline Safety Features

The design for the proposed project includes the use of advanced pipeline safety features. A communication and control system consisting of underground fiber optic cable will enable operators to actively monitor and remotely control the operation of the pipeline. An advanced leak detection system will use a sophisticated computerized mathematical model to identify discrepancies that might indicate a leak or other problems. Remotely controlled block valves installed along the pipeline will control and contain fuel flow in the event of a leak.

4.

Modifications to the Barbers Point Tank Farm

The new major ancillary facilities to be constructed at the BPTF as part of the proposed new pipeline system include:

1) Main Line Pump Station. HECO would construct a main line pump station serving both the existing Kahe pipeline and the new Waiau pipeline. The pumping station will have mainline pumps for the new Waiau pipeline and mainline pumps for the existing Kahe pipeline.

2) Metering Facilities. HECO would install metering facilities and inspection equipment for both the Kahe and Waiau pipelines. The metering facilities would be used to monitor flow rates, pressure, and other key variables in the pipelines to provide immediate notification of any anomalies, such as would be caused by a pipeline leak or other failure. The inspection system would launch tools, called "pigs," through the pipeline that are used to clean the pipeline and internally inspect the pipeline for corrosion and other defects.

3) Booster Pump And Tank Piping. Modifications to the existing storage tank piping and additional booster pumps would be added to accommodate the new functions that would be assumed at the BPTF.

4) Diesel Fuel Storage Tank. A 10,000-barrel diesel fuel storage tank would be installed to provide diesel fuel for displacement of the LSFO for pipeline maintenance, start-up, and shutdown operations.

5) Programmable Logic Controller. A Programmable Logic Controller would collect and pre-process data from the pipeline metering systems and other data inputs at

BPTF. The data would then be forwarded to the control center at the Waiau Generating Station for further processing and display to the pipeline operator.

6) Electrical Tank and Pipe Heating Equipment. Electrical tank and pipe heating equipment would replace the existing steam system where required.

7) Emergency Generating Equipment. Emergency generating equipment would be installed to maintain heat and electrical power to the facility in the event of a major power outage.

8) Maintenance and Storage Building. A single-story maintenance and storage building, approximately 30' wide x 60' long x 14' tall, would contain a backup control center in the case of a failure or evacuation of the Control Center at the Waiau Generating Station.

9) Fuel Truck Loading Facility. A truck loading facility would be installed to fill fuel trucks destined for the Iwilei Tank Farm.[5] Computer programming, accessed by a card-lock security system, would control truck loading.

[5]From the Iwilei Tank Farm, the fuel would travel by the existing HECO pipeline to the Honolulu Generating Station.

The same facility would be able to receive and pump No. 2 fuel oil (diesel grade) from trucks into a newly constructed 40-foot high storage tank with a capacity of 10,000 barrels.

5.

Modifications to the Waiau Generating Station

HECO would make several modifications to the Waiau Generating Station to accommodate the new pipeline:

1) The Company would establish an Operations Control Center (OCC) for all pipeline operations in an existing room at the Waiau Generating Station. The OCC would house the Supervisory Control And Data Acquisition (SCADA) system master. The proposed SCADA system design, which is based on high-speed desktop computers, would utilize state of the art pipeline operating software combined with a dynamic leak detection model. The system would process all data received from the remote terminal sites at the BPTF and at sensors along the length of the pipeline and present this information to the pipeline operator in graphical form.

2) A metering facility and pig launcher/retriever system will be installed. This would be a near twin of the pig launcher/retriever system proposed for the BPTF.

6.

Iwilei Truck Unloading Facility

LSFO loaded onto trucks at the BPTF using the proposed new loading facilities would be off-loaded at the existing Iwilei Tank Farm. Once there, it would be stored in the existing tank and pumped as needed through the existing Iwilei-Honolulu Generating Station fuel line. Proposed modifications to the existing facilities include:

1) installation of electrically operated gates on the east side of the facility;
2) installation of the truck unloading connections, valves, pumping equipment, and metering;
3) relocation of existing aboveground piping to improve truck access to the facility;
4) construction of a small (approximately six feet square) shed to house the computer and ticket printer and bill of lading depository; and installation of a new entrance and driveway paving.

C.

EVALUATION OF OPTIONS

HECO reviewed its alternatives for supplying fuel to its Waiau Generating Station over the long term while maintaining environmental quality and maintaining costs to our customers at a reasonable level. This review included operating and capital costs for the alternatives as well as any qualitative factors.

1.

Alternatives Reviewed

The following alternatives were considered:

- Preferred Alternative (Alternative A) - A new pipeline in the State Energy Corridor (SEC). This alternative involves construction of a new pipeline between HECO's BPTF and Waiau Generating Station, combined with trucking fuel from the BPTF to the Iwilei Tank Farm. While any number of routings are theoretically possible, the difficulty of assembling the property rights (lease, ownership, easements, or other) for a long linear facility such as a pipeline limits the number of alternatives that are practical to existing road and pipeline rights-of-way. The SEC, which was created expressly to accommodate fuel movement between CIP and Honolulu Harbor and passes next to the Waiau Generating Station, is clearly the most appropriate corridor. Fuel delivery to the

Kahe Generating Station would continue to be through the HECO owned Kahe pipeline.

- Alternative B - Continue to Use the Chevron Pipeline. This alternative essentially is a continuation of the current Chevron F&O Contract, to deliver LSFO to the Waiau Generating Station and to the Iwilei Tank Farm, and for other services covered by the existing contract. Hence, this alternative would require eventual renegotiation of a long-term F&O contract between Chevron and HECO. Fuel delivery to the Kahe Generating Station would continue to be through the HECO-owned Kahe pipeline.

  Chevron has an active pipeline maintenance program in place for its pipeline that was installed in 1958. The program includes regular inspections of the pipeline, with annual maintenance work based on the results of the most recent inspections. To prevent corrosion, external pipeline coatings were used on its pipeline as a barrier between the metal that makes up the pipe itself and the soil. Chevron inspects its line periodically to monitor the integrity of the pipe and its coating system. Chevron's maintenance program targets appropriate areas for repair or replacement. This alternative assumed that these activities would continue at levels needed to meet applicable pipeline regulations. The maintenance activities may eventually

result in all the original pipe in the Chevron system between the BPTF and Iwilei being replaced with new pipe. The work will be similar to that conducted in the past. It was assumed that this maintenance work would occur on an annual and incremental basis.

- Alternative C - Trucking to Waiau and Iwilei. This alternative involves the use of tanker trucks to transport fuel from the BPTF to both Waiau and the Iwilei Tank Farm. This would require the construction of new fuel truck loading and unloading facilities at the Barbers Pont Tank Farm, unloading facilities at Waiau Generating Station, and unloading facilities at the Iwilei Tank Farm, and a trucking contract to transport the LSFO. Fuel delivery to the Kahe Generating Station would continue to be through the HECO-owned Kahe pipeline.

- Alternative D - Barging to Waiau. Barging was evaluated as a means of transporting fuel from Barbers Point to Waiau and trucking fuel to Iwilei Tank Farm. This would entail construction of a barge unloading facility approximately 1,600 feet offshore in the East Loch of Pearl Harbor; the installation would include submarine pipelines to transport LSFO and diesel fuel directly to tanks at the Waiau power plant. Barge delivery would require improvements to the pipelines linking HECO's Barbers Point Tank Farm with

the Hawaii Department of Transportation's Kalaeloa-Barbers Point Deep Draft Harbor. Fuel delivery to the Kahe Generating Station would continue to be through the HECO-owned Kahe pipeline. Two principal factors have led HECO to eliminate barging from the alternatives being considered.

1) The Navy has historically been very reluctant to guarantee that civilian vessels (including tugs and barges) delivering non-military cargo would be allowed to enter Pearl Harbor under all security conditions. Because of this, HECO could not rely on this as a means of supplying fuel to its generating units at Waiau.

2) Barging LSFO from the Deep Draft Harbor to Pearl Harbor would entail additional risks of damage to coastal and marine resources in the event of oil spills or other accidents.

These operational and environmental factors have led HECO to eliminate the barging alternative as a viable alternative.

2.

Other Alternatives Eliminated From Detailed Consideration

Other options have been considered briefly and eliminated as impractical. These include:

- The "No-Action" Alternative. - The No-Action alternative is the failure to arrange for continued fuel delivery to Waiau beyond the end of the current contract between HECO and Chevron. However, because the consequences of this alternative would not meet HECO's primary objective of supplying fuel to its generating stations, the No-Action alternative is not considered a feasible alternative. The Waiau Generating Station provides nearly 500 MW of generating capacity, or about 30 per cent of Oahu's total. It would require at least ten years to site, plan for, and construct a replacement power plant, assuming a replacement site could be found. The capital cost would be around $500 million, if a combined cycle technology were selected. Even if HECO were to undertake this alternative and the Commission were to approve it, fuel lines would still need to be constructed to supply fuel to the replacement power plant site.

- HECO's purchase and operation of Chevron's 8-inch pipeline and right-of-way ("ROW"). - This would involve either (a) simply operating and maintaining the existing Chevron pipeline or (b) replacing the entire Chevron pipeline with a new line of equal capacity. Each of these could be done either along the entire pipeline route (so that HECO could continue to supply

both Waiau and the Iwilei Tank Farm/Honolulu Generating Station through the pipeline) or, alternately, only for the BPTF-to-Waiau portion of the route. However, outright purchase of the facilities or construction of new facilities in this easement was eliminated as a feasible alternative because it would require the acquisition of new HECO easements (as not all of the Chevron easements can be assigned to HECO). Additionally, the purchase of existing Chevron facilities would need to be negotiated and such negotiations could be complicated and lengthy.[6]

- Use of the currently unused pipeline owned by the U.S. Navy that ends at the former Barbers Point Naval Air Station ("BPNAS"). - This pipeline was not considered for use because it is not designed to transport heated LSFO, the current condition of the pipeline is uncertain, and the route it follows runs directly under West Loch in Pearl Harbor, which increases the environmental consequences of a leak and makes maintenance difficult. Additionally, the pipeline ends at the former BPNAS and does not extend to HECO's tank farm in Campbell Industrial Park.

- Use of the existing 10" pipeline owned by Tesoro that is already in the State Energy Corridor. - This

[6]Issues such as who would be responsible for any existing contamination would also need to be resolved.

pipeline is used exclusively for "white" transportation petroleum products and would not be appropriate for the transport of the LSFO used at the Waiau Generating Station. These "white oils", such as jet fuel, gasoline, and diesel fuel, cannot be transported in a pipeline that transports LSFO or "black oil", because of the incompatibility of the fuels and possibility of negatively impacting the fuel quality of the white oils. Conversion of the Waiau Generating Station to make use of these other fuels would entail significant modification of the Station itself, and the cost of using such fuels would be approximately 50 per cent higher than the cost of LSFO.

3.

Selection of Preferred Alternative

To evaluate the above alternatives, HECO conducted a life cycle, 30-year, revenue requirements analysis for each of the four alternatives. The analysis reviewed the revenue requirements for O&M and capital to implement the alternatives to deliver fuel to the Waiau Generating Station, the Iwilei Tank Farm, and the Kahe Generating Station.[7] HECO represents that the proposed new pipeline from BPTF to Waiau has the lowest

[7]HECO represents that continued operation of the Waiau Generating Station does not, and will not, preclude HECO's efforts to pursue meeting future energy needs with additional generation utilizing new technologies, including renewable energy and other developing technologies.

evaluated revenue requirements of all of the alternatives. HECO also represents that its preferred Alternative A, a new pipeline in SEC, will break even[8] after 6 years compared to continuing to use the existing Chevron pipeline.

D.

REPORTING REQUIREMENTS

On October 7, 2002, the Consumer Advocate filed its Statement of Position indicating that it does not object to the commission approving the application, subject to certain conditions regarding reporting requirements. On October 16, 2002, HECO filed its reply to the Consumer Advocate's statement of position which, among other things, objected to the Consumer Advocate's suggested reporting requirements.

By letter dated and filed on November 21, 2002, HECO and the Consumer Advocate filed a joint letter stipulating to certain conditions regarding reporting requirements necessary for this proposed project (stipulated reporting requirements). HECO and the Consumer Advocate agreed to the following:

1. HECO will provide to the commission and the Consumer Advocate a status report of the costs for construction and materials after the contracts for construction are awarded and after major materials are procured (these activities are expected to be completed at or about the end of June 2003).

[8]The cumulative present value of the revenue requirements of two alternatives will be equal.

Significant cost differences between the contracts for construction and major materials procured and the estimates in the application will be explained at that time. HECO will also provide an updated cost estimate for the project. Should copies of supporting documentation for the updated cost estimates be requested, copies will be provided or made available for review.

2. HECO will provide the commission and the Consumer Advocate with a copy of the Phase II Environmental Site Assessment Report of the State Energy Corridor when the report is completed. Following construction of the line, HECO will provide to the commission and the Consumer Advocate a report as to the remediation costs incurred during the construction of the line and available information regarding such costs that HECO will seek to recover from others. HECO will implement procedures which allow the Company to separately track the costs incurred for remediation, including such costs that HECO may seek recovery from third parties.

3. HECO will submit its Integrated Resources Plan (IRP) annual evaluation report, which is required to be submitted by December 31, 2002 in accordance with Order No. 19689, filed on October 2, 2002, in Docket No. 95-0347. HECO is still working on its IRP annual evaluation report, but it is clear that the need for continued delivery of LSFO to the Waiau Generating Station will not be impacted. HECO is scheduled to file its next IRP plan on October 31, 2005. The parties agree no further action is required for this condition.

4. During the discussions, the Consumer Advocate reiterated its position that its recommendation was for HECO to consider whether negotiations for a new F&O contract should commence with Chevron now. HECO shared with the Consumer Advocate that (1) HECO plans to begin discussion with Chevron on a contingency to extend the current F&O contract in the event HECO's new pipeline is not completed prior to the end of the existing contract; (2) Chevron has not indicated that it would reduce the cost of the F&O contract given that HECO has the opportunity to pursue it own pipeline; and (3) Chevron has not discouraged HECO from pursuing its own pipeline. Chevron attempted to negotiate less favorable terms in the last negotiation, and HECO believes its negotiating leverage regarding these terms would be different in any future long-term negotiations since Chevron no longer uses the pipeline. Based on the additional information provided to the Consumer Advocate, the parties agree no further action is required for this condition.

III.

Upon careful review, the commission finds that the proposed project is reasonable and consistent with the public interest. The parties have sufficiently addressed the issues established in this docket. Specifically, the proposed project, which is comprised of, among other things, constructing a new BPTF-to-Waiau Pipeline appears to provide the following benefits: (1) installation of a high-grade steel pipe that is coated to protect against corrosion, insulated to minimize heat

loss, protected by a polyethylene jacket, and to be installed in the SEC; (2) lowest cost alternative for delivering fuel; (3) lower environmental risk with modern pipeline and its safety features including remote monitoring and controls and state-of-the-art leak detection system; (4) dedicated fuel delivery system, which will help to ensure continued electricity service for customers in the future; and (5) increased operational flexibility provided by the proposed pipeline's modern technology.

Accordingly, the commission will approve HECO's application. However, the commission agrees that the stipulated reporting requirements, as described in section II.D. above and stated in the parties' joint letter dated and filed on November 21, 2002, should be also approved, adopted, and made part of this decision and order as conditions of our approval of the instant application. Such conditions should protect ratepayers from having proposed project costs that can be shown to be unreasonable included in future revenue requirements. At the same time, the conditions will allow HECO to proceed with its plans to construct a new pipeline and receive the benefit of having a means of continuing the supply of LSFO to the Waiau Generating Station.

IV.

THE COMMISSION ORDERS:

1. HECO's application, filed on November 6, 2001, to expend an estimated $26.9 million for Item P0000064, relating to

its proposed Waiau fuel pipeline project, is approved; provided that no part of the project may be included in HECO's rate base unless and until the project is in fact installed, and is used and useful for utility purposes, and further, no part of any "special community relation costs" incurred in this project may be included in HECO's rate base until these costs are justified and approved in HECO's next rate case.

2. The stipulated reporting requirements, as described in Section II.D above and as stated in the parties' joint letter, dated and filed on November 21, 2002, are approved, adopted, and made a part of this decision and order as conditions of our approval of the instant application.

3. HECO shall submit a report within 60 days of the project's commercial operation, with an explanation of any deviation of 10 per cent or more in the project's cost from that estimated in the application. Failure to submit the report, as required by this decision and order, will constitute cause to limit the cost of the project, for ratemaking purposes, to that estimated in the application.

4. HECO shall serve two copies of the reports and information described in paragraphs 2 and 3, above, upon the Consumer Advocate.

DONE at Honolulu, Hawaii this 16th day of December, 2002.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By _____
Wayne H. Kimura, Chairman

By _____
Janet E. Kawelo, Commissioner

By (RECUSED)
Gregg J. Kinkley, Commissioner

APPROVED AS TO FORM:

_____
Kevin M. Katsura
Commission Counsel

01-0444.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 19875 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

WILLIAM A. BONNET
VICE PRESIDENT-GOVT.& COMMUNITY AFFAIRS
HAWAIIAN ELECTRIC COMPANY, INC.
P. O. Box 2750
Honolulu, HI 96840

LORIE ANN NAGATA, TREASURER
HAWAIIAN ELECTRIC COMPANY, INC.
P. O. Box 2750
Honolulu, HI 96840

THOMAS W. WILLIAMS, JR. ESQ.
GOODSIL ANDERSON QUINN & STIFEL
Alii Place, Suite 1800
1099 Alakea Street
Honolulu, HI 96813

Karen Higashi

DATED: December 16, 2002